

# Restaurant Chain Report™

## *The Comprehensive Report on Expanding Restaurants*

Crittenden Publishing, Inc.

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Vol. 5, No. 17

October 27, 2003

### NEW CATEGORY ARISES FROM CO-BRANDING EVOLUTION

As restaurant chains across all segments seek ways to maximize dollars and real estate, co-branding over the past few years has risen high on the list as a smart option among quick-service brands. Brands in other segments tipped their hats to co-branding's goal of generating consistent traffic flow by putting marketing muscle behind slower dayparts with menu, decor or name changes, such as efforts to boost dinner traffic by traditional breakfast destinations **Elmer's Breakfast.Lunch.Dinner.** and **IHOP**. But companies that jumped on the co-branding train early already tinker with the next generation of the concept and may even create another quick-service category segment.

While the move toward co-branding basically began as a way to eliminate the "no vote" among families or groups by providing more diverse food choices, the resulting higher traffic counts and chance to draw customers during typically slower dayparts has served to widen the markets into which restaurant chains might profitably roam. Small towns may soon be rife with dining options since real estate and operating costs are more manageable if traffic can be ensured all day long. These dramatic benefits of co-branding are part of the reason behind **Yum! Brands, Inc.**'s strategy to eventually pair up all of its approximately 20,000 domestic sites using its **KFC**, **Pizza Hut**, **Taco Bell**, **Long John Silver's** and **A&W All-American** brands. Multibranding keeps gaining momentum as restaurateurs realized these joint units can boost the bottom line by about 40 percent by shaving operations and labor costs and oftentimes increase the amount of the average check.

**Allied Domecq Quick Service Restaurants (ADQSR)** is the first company out of the gate with a new twist on the idea. The company looks to create a "quick-comfort" category by using a design scheme that brings its three-in-one concept—a triumvirate of **Togo's**, **Baskin-Robbins** and **Dunkin Donuts**—into a more cohesive unit. These outlets could take a cue from the past to become a sort of corner cafe in markets where restaurants are scarce.

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### FRANSMART PUTS ZING IN ZYNG NOODLERY'S NATIONAL EXPANSION

Aided by growing interest among American franchisees towards Canadian restaurant chains and a United States franchise development company and partner, **Zyng Noodlery** is ramping up its expansion program and looking to compile at least 10 stores by year-end, 20 to 22 stores by the end of 2004 and 50 or more by 2006. Zyng, one of the Canadian restaurant chains leading a new charge into the U.S., will tangle with brands such as **P.F. Chang's China Bistro** and **Big Bowl** as franchise development company **Fransmart** quickly grows the chain across the United States. The first domestic Zyng outlet opened six months ago in Wichita, Kan., and already about 140 units are in development in markets stretching from California to Connecticut.

Fransmart CEO **Dan Rowe** was drawn to Zyng, which includes seven Canadian units, partly because it tackles a loosely tapped niche in the popular Asian segment. Many noodle chains have been rolling across the country in recent years, but most of these are fast-casual eateries, such as **Noodles & Company**, **Pick Up Stix**, **Pei Wei Asian Diner** and **Mama Fu's Noodle House**. Zyng is a full-service, casual-dining concept that collects an average check of \$12. The restaurant offers a noodle-based menu of Pan Asian cuisine, culling recipes from countries such as China, Japan, Korea, Singapore, Thailand and Vietnam.

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### RESTAURANT CHAIN DATABANK

<u>Company Address/Contact</u>	<u>Menu</u>	<u>Preferred Property (Order of Preference)</u>	<u>Building Size</u>	<u>Target Markets</u>
Ruby Tuesday 150 W. Church Ave. Maryville, TN 37801 <b>Company-Owned Real Estate</b> Kurt Juergens, Vice President, Real Estate <b>Franchising</b> Mark Ingram, President, Worldwide Franchising (865) 379-5700 / fax: (865) 379-6828 http://www.rubytuesday.com	Casual	Freestanding/Outparcels Malls	4,600-7,000 s.f.	Arizona; California; Colorado; Ohio; Florida; Maryland (Baltimore, Clinton, Elkton, Essex, Frederick, Landover, Linthicum, Loch Raven); Texas.

## PASTA POMODORO TRIES NEW NAME IN NEW TERRITORY

Italian concept **Pasta Pomodoro** heads to Southern California where it will open stores under the new moniker, **Pomodoro Cucina Italiana**. But don't look for the new name to be a chainwide changeover. Founder and Executive Chef **Adriano Paganini** notes that the company is simply sampling the name in a territory where its primary brand is not yet established. Southern California is just one of the markets targeted for expansion. Expect the 32-unit chain also to fill out existing markets within the San Francisco Bay area and Arizona as it works to end the year with eight or nine new locations before kicking growth into a faster gear next year, when it will tack on about 15 stores. San Francisco-based Pasta Pomodoro foresees winding around the West over the next two years, tapping into markets such as Denver, Seattle and Portland.

Paganini chose to test the new banner to give diners a better sense of what his restaurants serve. Pasta Pomodoro implies the restaurant serves only pasta, when, in fact, the contemporary Italian menu includes a variety of items such as soup, salads, sandwiches, fish and chicken. Health-conscious diners can order pasta dishes prepared with whole-wheat or low-gluten, high-protein pasta. The chain also recently padded its menu with more light items, including grilled salmon with grilled vegetables and a white fish served with pasta and vegetables. Top-selling selections include roasted butternut squash ravioli with browned butter, sage and parmesan; corkscrew pasta with grilled and smoked chicken, sun-dried tomatoes, mushrooms, garlic and a cream sauce; and capellini.

### Financial Help from Wendy's Aids Expansion

Pasta Pomodoro moves down its aggressive growth path with help from **Wendy's International Inc.**, which paid \$12 million for a 25 percent stake in the chain last year. Pasta Pomodoro expects Southern California to eventually carry about 30 outlets. The first unit in the region opened last year in Orange County, and the second store opened last month at a shopping center in Newport Beach. Another Newport store is planned along with stores in San Bernardino, Corona, Rancho Cucamonga and Manhattan Beach. The company recently debuted a unit in Sacramento and widened its Bay Area presence with a store in Novato, Calif. End cap or freestanding locations suit the chain. The company seeks higher-end retail co-tenants such as a **Whole Foods** grocery store, **Borders** bookstore or **Peet's Coffee & Tea**. The brand targets families and 30- to 55-year-old diners earning a household income of at least \$70,000.

Pasta Pomodoro has maintained a strong bottom line even as the nation's economy—particularly that of its local tech-heavy San Francisco Bay area—stumbled. A typical 2,800 to 3,000 s.f., 80- to 90-seat Pasta Pomodoro takes in about \$1.5 million in annual sales, which Paganini attributes to the chain's fresh, high-quality ingredients served at reasonable prices.

Contributing to this success is nine-year-old Pasta Pomodoro's efficient operating system, which allows the restaurants to quickly shuffle through high volumes of customers with minimal waste. Quick table service is aided by Pasta Pomodoro's method of serving par-boiled pasta that is finished to order then topped off with sauce and fresh ingredients such as garlic, tomatoes and basil. The average check for lunch and dinner is roughly \$13. The restaurant design creates a lively atmosphere with an open kitchen with counter seating and Italian hand-blown pendant lamps. Paganini is a native of northern Italy and worked at restaurants in France, Italy, England and New York before arriving in San Francisco.

## GARDEN FRESH IN PLAY WITH OWNER OF SHARI'S, BAKERS SQUARE, VILLAGE INN

An Anaheim, Calif.-based private investment firm is poised to acquire salad buffet chain **Garden Fresh Restaurant Corp.** in a deal valued at \$140 to \$150 million. The deal, expected to close by early 2004, won't be the first for **Fairmont Capital Inc.**, which has a long history of acquiring and developing restaurant chains. For more than four years, the company has owned **Shari's Management Corp.**, a leading Pacific Northwest chain of family-style restaurants. In July, the company sold **VICORP Restaurants Inc.**, another major family-style restaurant chain, with annual sales in excess of \$375 million and which operates 97 units under the **Bakers Square** and **Village Inn** names.

Garden Fresh operates 97 **Souplantation** and **Sweet Tomatoes** salad buffet restaurants in 15 states. The private company will maintain its headquarters in San Diego. It is expected that the current Garden Fresh senior management team, led by Chief Executive Officer **Michael Mack**, will remain in place.

Fairmont's President **Michael Gibbons** is confident the deal will be a good one in the long run despite Garden Fresh's lagging profits over the past two years due to the rising costs of utilities and insurance, too-rapid expansion and added competition from other dining choices. The focused management team and Garden Fresh's attention to healthy eating attracted Fairmont to the chain. Fairmont Capital's primary focus is the acquisition of seasoned operating companies.

Garden Fresh's growth has slowed over the past few years. Two units opened in both 2002 and 2003, compared to nine in 2001. Fairmont is not discouraged by these numbers and intends to continue to grow and develop the chain at an undetermined rate. Souplantation and Sweet Tomatoes restaurants average 7,300 s.f. and are all freestanding. The chain looks for 100,000 residents within a three-mile radius. The chain offers two 55-foot buffets with lettuce and pasta salads, soups, pizza and desserts.

Garden Fresh was co-founded in 1983 by Mack, a management consultant. The company went public in 1995 and fared well until the last two years.

Unlike **Consolidated Restaurant Operations Inc.**, which dropped its bid to acquire **Chevys Fresh Mex** and **Fuzio's Universal Pasta** from **J.W. Childs Associates**, Fairmont Capital's Gibbons does not foresee his company's business in California being overly affected by the passage of a recent Senate bill that will require employers to provide full healthcare benefits to part-time employees beginning in 2006 or pending legislation that would raise the minimum wage in San Francisco. He figures the legislation will apply to everyone and will be factored into how business is done and pricing.

## NEW CATEGORY ARISES FROM CO-BRANDING EVOLUTION...

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The first of ADQSR's All Day cafes opened this month in Burbank, Ill. The concept downplays the individual brand names by incorporating their logos into a clock face highlighting the restaurant as a place to eat at any time. Dunkin Donuts satisfies morning business while Togo's soups and sandwiches draws a hefty lunch crowd. Baskin-Robbins ice cream draws late-afternoon and evening treat-seekers. This sets ADQSR apart from co-branding cheerleader **Yum! Brands**, which is fairly limited to lunch and dinner traffic with its five concepts.

ADQSR's All Day cafe boasts an interior and exterior design featuring images to match the tone of the brands. Tabletops and tiles are covered with pictures of sprinkles and coffee beans, and warmer internal color palates were used. New menu boards, softer lighting and digital music libraries that can change throughout the day also are included.

ADQSR executives worked on the new design with **Adrienne Weiss Corporation**, architects from Cambridge, Mass.-based firm Prellwitz/Chilinski Associates, Inc. **Tom Wyczawski**, ADQSR concept officer of multibranding and new market entry, and CEO **Jon Luther** see the All Day cafes as a creative way to draw customers to its three well-known brands while also benefiting franchisees by creating operational and purchasing synergies. All restaurant companies will be keeping an eye on the performance of these new ADQSR cafes.

## CREMALITA DIPS INTO UNFILLED MARKET

Though it's not the overwhelming trend in ice cream, there is a niche market for lean ice cream alternatives, and **CremaLita** wants to fill it. Despite a limited customer base, the company is confident that it has an audience in busy metropolitan areas. And there's reason to expect big things out of CremaLita, a tiny low-calorie, frozen-dessert chain. The 10-unit chain has eight units in Manhattan, one in Santa Monica, Calif., and one in Philadelphia. By year-end the company will open three more units—another in Philadelphia and two in the Los Angeles area—and its first airport kiosk in JFK International Airport. **Jeffery Britz**, CremaLita's CEO, thinks by the end of 2004 the chain will pack between 50 and 100 units under its belt. Britz foresees 20 stores in the New York metropolitan area, 10 to 15 in Los Angeles and 10 airport locations. Southern Florida also is on the company's list of preferred markets. The chain includes about 25 locations in corporate cafeterias, and Britz expects that number to climb to 200 by the end of 2004 and to include university cafeterias.

The chain recently brought on board **J. Patrick Burns**, a **Ben & Jerry's** franchising veteran, to serve as COO and to move the chain on its aggressive growth path. The company also set up a training store in Manhattan and hired a full-time manager to lead West Coast locations. CremaLita works on the hiring of an East Coast manager.

New York City-based CremaLita looks to place its shops in inline shopping centers in affluent, suburban areas. Residential areas with high foot traffic are desirable because patrons like to walk while consuming their dessert. CremaLita can squeeze into 225 s.f. or fill 1,200 s.f. Britz, also the chain's founder, plans to open only company-owned stores as long as he can afford to do so. Start up costs run \$166,500 to \$275,500, depending on location. CremaLita works with a three-pronged growth plan that calls for opening first in cities to establish brand recognition, then moving into cafeterias in those cities as it has done in New York City. The chain also looks to sell six-packs of its ice cream sandwiches in specialty and high-end grocery stores.

CremaLita has little direct competition in NYC, other than low-calorie frozen dessert chain **Tasti D-Lite**, but expects to compete with the entire ice cream segment as it expands nationally. **TCBY** and **I Can't Believe It's Yogurt** likely will be strong competition. CremaLita serves fat-free, low-calorie premium ice-cream treats, toppings, frozen cakes and pies. The chain has more than 70 flavors, but serves just six each day. Popular flavors include espresso, pumpkin, chocolate hazelnut, black raspberry, New Orleans praline and peanut butter. The average cost of an item is \$3.50.

## SPICY PICKLE ACCELERATES TO CAPTURE FAST-CASUAL MARKET

Watch for Colorado's **Spicy Pickle Sub Shop** to ramp up expansion plans, adding five units to its existing three by year-end and another 15 to 18 in 2004, as it seeks to cash in on the fast-casual market in which customers demand more than fast-food quality at a price point lower than in the casual-dining segment. The Denver-based sandwich chain is relying on new Executive Vice President **Gianmarco Macciaroli** to help build the brand. Macciaroli formerly held the position of senior director of operations at nearby Boulder, Colo.-based **Noodles & Company**.

Spicy Pickle has units under construction in Englewood, Lone Tree and Fort Collins, Colo. Sites for the other two units planned for this year have not yet been signed. The company's first out-of-state store is scheduled to open within the next six months in the San Diego area, where a new franchise owner plans to open multiple locations. Talks also are underway for franchise deals in other states including Florida, Nevada and Pennsylvania. Spicy Pickle has not projected growth past the end of 2004, but expects to sit down every six months to re-evaluate how rapidly it can grow without losing control of the chain or sacrificing service or product quality.

The chain offers counter ordering with a limited-view kitchen. Macciaroli calls the three units under construction "works in progress" as the chain refines its prototype. The chain is striving for a warm and inviting neighborhood feel with a progressive and hip look. Its restaurants fit into 1,500 to 2,000 s.f. and seat 30 to 50 customers. The preference is for end caps in three- to four-tenant strip malls. Space for a limited-seating patio is a plus.

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## CONTACTS

<u>Company/Parent Company/Web Site</u>	<u>Address</u>	<u>Contact/Title/E-mail</u>	<u>Phone Number/Fax</u>
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Champps (Champps Entertainment Inc.) http://www.champps.com	10375 Park Meadows Drive Suite 560 Littleton, CO 80124	Craig Oberlander Real Estate Marla Yetka Vice President of Marketing marla.yetka@champps.com	(303) 804-1333 Ext. 334 (720) 529-7320
The Cheesecake Factory, Grand Lux Café, The Cheesecake Factory Bakery Café, The Cheesecake Factory Express (The Cheesecake Factory Inc.) http://www.thecheesecakefactory.com	26950 Agoura Road Calabasas, CA 91301	Howard Gordon Chairman & CEO	(818) 871-3000
CremaLita (CremaLita Management) http://cremalita.com	147 W. 24th St. New York, NY 10011	Jeffrey E. Britz CEO Allison K. Britz President J. Patrick Burns COO	(212) 645 2000
Jack in the Box, Qdoba (Jack in the Box Inc.) http://www.jackinthebox.com	9330 Balboa Ave. San Diego, CA 92123	Kathleen Finn Manager, Corporate Communications	(858) 571-2229
Fairmont Capital Inc. http://www.fairmontcapital.com	1290 N. Hancock St. Suite 203B Anaheim, CA 92807	Michael Gibbons President	(714) 701-1470 fax: (714) 701-1474
Pasta Pomodoro http://www.pastapomodoro.com	1550 Bryant Street Suite 100 San Francisco, CA 94103	Adriano Paganini Founder & Executive Chef	(415) 431-2681 Ext. 205
Schlotzsky's Deli (Schlotzsky's Inc.) http://www.schlotzskys.com	203 Colorado St. Austin, TX 78701	John C. Wooley President & CEO Joyce Cates Senior Vice President of Franchise Operations	(512) 236-3600
Shells (Shells Seafood Restaurants Inc.) http://www.shellsseafood.com	16313 N. Dale Mabry Highway Suite 100 Tampa, FL 33618	Warren Nelson Executive Vice President	(813) 961-0944
Spicy Pickle Sub Shop (Spicy Pickle Franchise LLC) http://www.spicypickle.com	90 Madison St. Suite 700 Denver, CO 80206	Gianmarco Macciaroli Executive Vice President	(303) 297 1902 Ext. 11

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## SPICY PICKLE ACCELERATES TO CAPTURE FAST-CASUAL MARKET...

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The sandwich shop likes to locate near **Starbucks, Noodles & Co., Chipotle Mexican Grill, Wahoo Fish Taco** and **Jamba Juice**. Franchisees initially invest \$192,000 to \$299,000 to open a unit. Franchise agreements are 10 years and renewable for 10 additional years upon payment of 20 percent of the franchise fee charged at the time of renewal.

Spicy Pickle serves subs, salads and paninis. It claims it can make 17,000 different sandwich combinations using 14 meats, 20 toppings, 16 spreads and 12 cheeses served on white or wheat Italian bread baked fresh daily. Menu choices include the Sausalito Bandito, made with Sausalito turkey, roasted red peppers, sun-dried tomatoes, pepper jack cheese and chipotle mayo served on focaccia and hot pressed. The Forest salad is one of six salad offerings and is made with spinach lettuce, portabella mushrooms, toasted hazelnuts, grilled onions, sun-dried tomatoes and balsamic honey vinaigrette. The chain also boasts of having the world's best spicy pickle. Its average check totals \$7.75. Spicy Pickle typically competes with other fast-casual bakery-café chains such as **Atlanta Bread Company Bakery Café** and **Panera Bread**.

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## Contacts

(Continued from Page 5)

Company/Parent Company/Web Site	Address	Contact/Title/E-mail	Phone Number/Fax
Sweet Tomatoes, Souplantation (Garden Fresh Restaurant Corp.) http://www.gardenfreshcorp.com	15822 Bernardo Center Drive Suite A San Diego, CA 92127	Walter J. Carucci Vice President, Real Estate & Development	(858) 675-1600
Taco John's (Taco John's International Inc.) http://www.tacjohns.com	808 W. 20th St. Cheyenne, WY 82003	Brian Dixon Vice President of Marketing	(307) 635-0101 fax: (307) 638-0603
Yum! Brands Inc. (KFC, Long John Silver's, Taco Bell, Pizza Hut, A&W Restaurants) http://www.yum.com	1441 Gardiner Lane Louisville, KY 40213	Scott Colosi Director, Investor Relations Amy Sherwood Vice President	(502) 874-8918 (502) 874-8200
Zyng Noodlery (Zyng International Inc.) http://ww.zyng.com	<b>Main Office</b> 4710 St. Ambroise Suite 320 Montreal, Quebec H4C 2C7, Canada  <b>U.S. Office</b> Fransmart 132 King St. Suite 200 Alexandria, VA 22314	Arnold Shostak President and Founder  Dan Rowe CEO	(888) 966-6353  (800) 422-2435 fax: (703) 549-0740

### FRANSMART PUTS ZING IN ZYNG NOODLERY'S NATIONAL EXPANSION...

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Fransmart last year formed a joint venture with Montreal-based Zyng to build the brand in the U.S. The company accumulated an experienced management team to kick-start growth, adding **Rick DeMarco** as its vice president of operations. DeMarco formerly held operations positions at **California Pizza Kitchen** and **Stir Crazy** and was senior vice president of **House of Blues**. Fransmart over the past year has sold about 200 franchises for its brands, including **Italian Pie**. The founders of Fransmart also helped secure multiunit franchisees for fast-casual chain **Qdoba Mexican Grill**.

Watch for Zyng to pop up in a variety of venues. **HMSHost Corp.** is taking the reins to lead the chain into airports. Six airport locations should be open by year-end. A unit is slated to open this month in the Orlando airport. Other airports set to host Zyng include Minneapolis, Albuquerque, Sacramento and Columbus. Traditional Zyng Noodlery outlets will be 100- to 120-seat, 3,000 to 3,500 s.f. restaurants in freestanding buildings or in the end caps of strip malls. Restaurants cost approximately \$250,000 to \$300,000 to open and average \$900,000 to \$1.2 million in annual sales. Fransmart searches for high-profile spots in trade areas where people live and work, with a population of least 60,000, including a daytime count of 10,000. The average household should earn a mid- to upper-middle income. Areas with a large number of college graduates and people in their early- to mid-30s are ideal.

Zyng Noodlery restaurants are designed as eclectic Asian diners. Units feature seating that surrounds an exhibition kitchen where food is prepared on a teppanyaki grill. Tables and booths are placed close together with a variety of nooks and alcoves for a compact feel. Diners can create their own dish, choosing from an array of vegetables, noodles, meats and sauces. Menu highlights include pad Thai, lettuce wraps and dumplings.

Fifteen multiunit franchisees have inked agreements to open Zyng Noodlery restaurants throughout the country, and Fransmart will sign only multiunit deals. Orange County, Calif., and Washington, D.C., are reserved for company-owned units. Zyng's immediate pipeline includes a store in Columbus, Ohio, by year-end, and a unit in D.C. early next year.

**Quizno's Subs** franchisee **Spandan Patel** will open 11 Zyng outlets in the Sacramento and San Jose areas. Ten stores are on tap for Southern California's Orange and Riverside counties, and **Wholesome Living LLC** is set to open eight units in Pittsburgh, Pa., and Cleveland. Other areas set to host Zyng Noodlery include Alabama; Albuquerque; Boston; Chicago; Westport, Stamford and Norwalk, Conn.; Wilmington, Del.; Indiana; Minneapolis; southern New Jersey; North Carolina; Northern Virginia; Philadelphia; and South Carolina.

## Comings & Goings

**Yum! Brands Inc.** names **Gregg Dedrick** president of its **KFC** chain, replacing **Cheryl Bachelder**, who resigned to pursue other interests. Dedrick is a 10-year veteran of the company, most recently serving as executive vice president of Yum's human resources department, which consists of more than 840,000 employees in more than 33,000 restaurants systemwide.

**Guy C. Kathman** joins **Shells Seafood Restaurants Inc.** as vice president of operations. Kathman is responsible for overseeing operations at all 28 **Shells** restaurants in Florida. During his 23-year career in casual dining, Kathman has held multiunit management posts at several restaurant chains. He most recently was with **Posados Cafe**, a regional Texas chain. Previously Kathman served for four years as regional director for **Brinker International's On The Border** chain. He also is a former director of operations for **Darden Restaurants' Red Lobster** chain.

**Champps Entertainment Inc.** promotes **Marla Yetka** to vice president of marketing. Yetka joined Champps in July 2002 as director of marketing. She has held various positions on the corporate, advertising agency and franchising sides of the restaurant business for brands including **Cracker Barrel Old Country Store**, **Gino's East of Chicago**, **Bruegger's Bagels** and **Ed Debevic's**.

**Jack in the Box Inc.** promotes **William F. Motts** to senior vice president of restaurant development. Motts is responsible for new restaurant development, remodeling and restaurant image enhancements. A 20-year veteran of Jack in the Box, Motts began his career with the company as director of engineering and construction and in 1985 was promoted to vice president of engineering and construction. Most recently he served as corporate vice president of restaurant development.

**Michael Berry** has resigned as president and chief operating officer of **The Cheesecake Factory Inc.'s** restaurant division less than a year after taking the position. Berry left to take a similar position with the **Back Bay Restaurant Group**, based in Boston.

## TACO JOHN BREAKS AWAY FROM THE PACK WITH REVISED DESIGN

**Taco John** looks to stand out in the ever-growing quick-serve Mexican segment with a design facelift and menu update. Hoping to keep current customers loyal and to become the choice of potential customers, the chain remodeled a unit in Cheyenne, Wy., using a design that moves away from the stereotypical look of Mexican restaurants that includes stucco walls, a mission roof and predominantly brown coloring. The new format focuses on more contemporary colors, shapes and designs. Mustard yellow and light plum coloring is now dominant throughout the restaurant and the brand logo has been revised to be more contemporary, simpler and easier to read. The chain has no formal timetable to determine if the overhaul is a success, but **Brian Dixon**, vice president of marketing, expects it will take two to three months to analyze sales results and digest customer feedback. The remodeled unit re-opened last week.

Most of Taco John restaurants are freestanding units measuring about 2,500 s.f. A handful of units are in mall food courts, travel centers and strip centers. Drive-up windows are essential for the freestanding units because 60 percent of the company's business is served through them. Taco John likes locations near traffic generators such as **Wal-Mart** and **Target** and looks to stay in middle and small-town America. Instead of penetrating large markets like Chicago and Los Angeles, the chain has found success in markets like Rapid City, S.D., and Lincoln, Neb. The chain runs nearly 400 stores, only seven of which are company-owned. Its 24-state territory is principally in the north central part of the United States.

Taco John last year added 15 units, all franchised. By the end of this year, the chain will have added 20 units. Look for the chain to ramp up its growth next year, reaching for a figure equal to a 5 to 10 percent annual expansion rate. The chain has worked for the past six years to organize a management team and prepare its brand for this growth effort.

Taco John competes with Mexican fast-food gorilla **Taco Bell**, along with second-tier restaurants like **Del Taco** and regional brands including **Taco Tico**, **Taco Bueno** and **Taco Time**. Taco John's menu additions, which coincided with the remodel, will include a shredded beef burrito, a shredded beef quesadilla and more Mexican bottled beverages. The chain is not removing any of its current menu items. Its average per person checks comes in at \$5.50. Taco John targets 25- to 50-year-old men and women who want a more flavorful product and are willing to pay slightly more than most fast-food prices. The first Taco John restaurant was built in Cheyenne in 1969 by partners **Jim Woodson** and **Harold Holmes**, both of whom are still involved in the business as leaders of the company's board of directors.

## SCHLOTZSKY'S TURNAROUND RELIES ON REVAMP OF RESTAURANTS, MENU

**Schlotsky's Inc.** counts on a revised menu and restaurant design along with a new corporate realignment and reduction to help reestablish the growth of a franchise system that has been on hold for the past three years. A slump in Schlotsky's sales forced the chain to close stores as recently as 2001.

The new menu aspect of Schlotsky's "Concept 2005" was introduced at the end of March at the chain's flagship store at Town Lake in Austin, Texas. A new company restaurant that opened in June on Parmer Lane in Austin debuted the new menu and new restaurant design. Intended to do more than improve sales, "Concept 2005" was designed to move Schlotsky's into the fast-casual sandwich market, allowing the chain to compete with brands like **Panera Bread** and **Atlanta Bread Company** and move away from lower-end players like **Subway**. The new gourmet and low-calorie, reduced-fat menu and the more contemporary and polished atmosphere were well received by customers and franchisees alike, prompting Schlotsky's to take the program systemwide.

**John Wooley**, Schlotsky's president and CEO, expects 100 percent of the chain to switch to the "Concept 2005" design within two years. Though the revamp is relatively inexpensive—coming in at less than \$20,000—franchisees can opt to go through the change in three phases to spread out the cost. Additionally, the company provides certain elements of the reimaging plan, which includes new menu boards, a new color scheme, posters, banners and lighting. Interior changes include warmer colors, wood tones, stone accents, wireless Internet stations and exposed brick that highlights the chain's new in-store bakery. Exterior improvements include a mix of limestone, more landscaping and a wood trellis.

Schlotsky's menu now includes 13 new items containing nine grams of fat or less. The pick-any-two option, which allows customers to choose between soup, half-sandwiches, half-pizzas, half-salads and half-wraps, also has gone over well with customers. To further cut costs and help run a more efficient ship, staffing at Schlotsky's corporate headquarters will be reduced by about 29 percent. The company is combining real estate and franchising licensing functions as well as franchise training and field services, while outsourcing quality inspections, restaurant audits, technical functions, creative services and market research. Five unfilled positions will be eliminated. Other cuts include salary reductions among senior corporate staff.

### Glossary

ADI - Area of Dominant Influence	IPO - Initial Public Offering
CAM - Common Area Maintenance	psf - per square foot
CPI - Consumer Price Index	s.f. - Square Foot/Feet
FF&E - Furnishings, Fixtures & Equipment	SMSA - Standard Metropolitan Statistical Area
GLA - Gross Leasable Area	TI - Tenant Improvement

### Editorial

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*Crittenden's Restaurant Chain News*<sup>TM</sup> is published the second and fourth Mondays of every month except the second Monday of December by Crittenden Research, Inc., 250 Bel Marin Keys Blvd., Building A, First Floor, Novato, CA 94949. POSTMASTER: Send address changes to *Crittenden's Restaurant Chain News*<sup>TM</sup>, P.O. Box 1150, Novato, CA 94948-1150. Contents copyright © 2003 Crittenden Research, Inc.

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